

LABOR

Crosscutting Labor Issues

Increase in the Minimum Wage. The Governor has indicated his support for legislation to increase the state's minimum wage from \$6.75 per hour to \$7.25 per hour, effective September 1, 2006, and to \$7.75 per hour effective July 1, 2007. No funding augmentations are built into 2006-07 department budgets related to this proposal; however, the Administration indicates that enactment of the legislation would increase General Fund costs by a total of \$10.3 million for the following departments:

- Department of Forestry / Department of Parks and Recreation (\$200,000)
- California Conservation Corps (\$1 million)
- Department of Aging (\$500,000)
- Department of Social Services (\$3 million)
- Department of Developmental Services (\$5.5 million)

The Administration proposes Control Section 3.65 that would allow the Director of Finance to augment the above budgets by a total of up to \$10.3 million if minimum wage legislation is enacted.

0559 Secretary for Labor and Workforce Development Agency

The Labor and Workforce Development Agency brings together the departments, boards, and commissions that train, protect, and provide benefits, such as unemployment insurance and workers' compensation, to employees and employers of California. The Labor and Workforce Development Agency includes the Department of Industrial Relations, the Employment Development Department, the Agricultural Labor Relations Board (the Agriculture Labor Relations Board is heard by Budget Subcommittee #2), and the Workforce Investment Board. The Agency provides policy and enforcement coordination of California's labor and employment programs and policy and budget direction for the departments and boards.

The Governor proposes \$2.2 million (reimbursements and special funds) and 14.2 positions for the Office of the Secretary, a decrease of \$16,000 over the revised current year budget. The Administration proposes to eliminate two part-time management positions and redirect the savings to establish a Staff Services Analyst and an Office Technician to support the work of the Deputy Secretary for Enforcement.

7100 Employment Development Department

The Employment Development Department (EDD) administers services to employers, employees, and job seekers. The EDD pays benefits to eligible workers who become unemployed or disabled, collects payroll taxes, administers the Family Leave Program, and assists job seekers by providing employment and training programs under the federal Welfare-to-Work Act of 1997 and Workforce Investment Act of 1998. In addition, the EDD collects and provides comprehensive labor market information concerning California's workforce.

The Governor proposes \$10.8 billion (\$24.7 million General Fund), a decrease of \$307 million (2.8 percent) from the revised current-year budget. The change is primarily driven by a projected decrease in benefit claims due to improved economic conditions.

Fund Source				
Expenditure by Program				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Employment & Employment Services	\$206,209	\$210,397	\$4,188	2.0
Tax Collections & Benefit Payment	10,302,676	10,011,740	-290,936	-2.8
Unemployment Insurance Appeals Board	75,478	74,683	-795	-1.1
Administration	52,892	54,747	1,855	3.5
Distributed Administration	(51,194)	(51,194)	0	0.0
Employment Training Panel	37,810	40,345	2,535	6.7
Workforce Investment Act	463,541	440,412	-23,129	-5.0
National Emergency Grant Program	45,000	45,000	0	0.0
Nurse Education Initiative	750	0	-750	-100.0
Total	\$11,133,162	\$10,826,130	-\$307,032	-2.8

Major Budget Proposals

Program Benefit Adjustments. The EDD budget reflects adjusted benefit expenditures in the current year and budget year. The adjustments are a result of recent benefit claim levels, and of the October 2005 forecast of future claims. The Department will submit a revised forecast for benefit expenditures as part of the May Revision.

- **Unemployment Insurance (UI):** Benefits are proposed to decrease by \$458.4 million in 2005-06 and decrease by \$507.7 million in 2006-07 (both relative to the 2005 Budget Act base). Additionally, operations expenditures are proposed to decrease by 142.6 personnel years and \$10.2 million in 2005-06 and decrease 122.3 personnel years and \$9.3 million in 2006-07.
- **Disability Insurance (DI) Program:** Benefits are proposed to increase by \$185.6 million in 2005-06 and decrease by \$79.7 million in 2006-07. Additionally, operations expenditures are proposed to decrease by 66.7 personnel years and \$4.3 million in 2005-06 and decrease 23.9 personnel years and \$1.5 million in 2006-07.
- **School Employees Fund Program:** Benefits are proposed to decrease by \$35 million in 2005-06 and decrease by \$41.4 million in 2006-07. No staffing changes are requested in either year.

- **Workforce Investment Act (WIA) Program:** WIA expenditures are proposed to increase by \$17.8 million in 2005-06 and remain unchanged in 2006-07.

In April, of both 2004 and 2005, the Unemployment Insurance (UI) Fund exhausted its fund balance and a short-term federal loan was obtained. The loans were repaid within a few months and no interest was charged. The current benefit forecast suggests no loans will be required in 2005-06 or 2006-07. In the *Analysis of the 2004-05 Budget Bill*, the Legislative Analyst's Office suggested there is a long-term solvency problem for the UI Fund absent corrective action. The Administration has not submitted a proposal to deal with long-term UI Fund solvency. While improved economic conditions have resulted in sufficient fund balances for the short run, the fund will likely become insolvent when unemployment rises during the next recession.

Automated Collection Enhancement System Implementation. The Governor proposes an augmentation of \$3.1 million (\$2.7 million General Fund) and 15 positions to fund the second year of an eight-year information technology project that is estimated to cost a total of \$93.4 million. The Administration proposes to submit annual budget change proposals for project funding. The Administration indicates the system would provide an integrated and automated solution that will use state-of-the-art employer tax collection, storage, account management, and data retrieval technologies to maximize the efficiency and effectiveness of the Department's tax collection operations. The new system is estimated to generate a total of \$583.4 million in additional revenue over a ten-year period by better detecting non-filers and non-compliant employers.

Disability Insurance Automation Project. The Governor proposes an augmentation of \$1.8 million (special funds) and 6.7 positions to fund the first year of a four-year information technology project that is estimated to cost a total of \$28.9 million. The Administration proposes to submit annual budget change proposals for project funding. The Administration indicates the system would provide greater access to services for claimants, medical providers, and employers.

Augmentation of State Funds to Replace Federal Funds. The Governor proposes to augment the Employment Development Department with state funds to replace expiring federal funds:

- An augmentation of \$2.8 million (EDD Contingent Fund) is requested to maintain existing staffing in the One-Stop Career Centers. These funds would replace a federal Wagner-Peyser Reemployment Services Grant that expires in June 2006.
- An augmentation of \$1.5 million (EDD Contingent Fund) is requested to maintain existing staff for the Veterans Employment and Training Services program. These funds would backfill for reduced federal grants.
- An augmentation of \$2.6 million (EDD Contingent Fund) is requested to maintain existing staffing for identity verification activities in the Unemployment Insurance Program. The federal Department of Labor is no longer providing supplemental funds for this activity.

Employment Training Panel. The proposed budget continues the practice of transferring Employment Training Panel (ETP) funds to the Department of Social Services for CalWORKs employment training programs to backfill for General Fund reductions; however, the transferred amount is proposed to be reduced by \$5 million. The additional \$5 million available to ETP

would enable the Panel to approve approximately 23 additional contracts to serve 300 employers, training 5,000 workers.

7120 California Workforce Investment Board

The federal Workforce Investment Act of 1998 established new requirements for employment and training programs for adults, youth, and dislocated workers, and resulted in the creation of the state Workforce Investment Board. The Board is tasked with developing workforce development programs into an integrated workforce investment system that can better respond to the employment, training, and education needs of its customers.

The Governor proposes \$4.8 million (federal funds and reimbursements) and 20.9 positions for the Board's budget – a decrease of \$392,000. The reduction is due to baseline reductions - the Administration did not submit Budget Change Proposals for this item.

7350 Department of Industrial Relations

The objective of the Department of Industrial Relations (DIR) is to protect the workforce in California; improve working conditions; and advance opportunities for profitable employment. The department enforces workers' compensation insurance laws and adjudicates workers' compensation insurance claims; works to prevent industrial injuries and deaths; promulgates and enforces laws relating to wages, hours, and conditions of employment; promotes apprenticeship and other on-the-job training; assists in negotiations with parties in dispute when a work stoppage is threatened; and analyzes and disseminates statistics which measure the condition of labor in the state.

The Governor proposes \$346.8 million (\$62.6 million General Fund), an increase of \$2.7 million (0.8 percent) from the current-year budget.

Expenditures by Program (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Self-Insurance Plans	\$3,578	\$3,591	\$13	0.4
Mediation/Conciliation	2,214	2,237	23	1.0
Workers' Compensation	154,398	157,726	3,328	2.2
Commission on Health and Safety and Workers' Compensation	3,133	3,068	-65	-2.1
Division of Occupational Safety and Health	85,423	87,466	2,043	2.4
Division of Labor Standards Enforcement	46,322	44,854	-1,468	-3.2
Division of Apprenticeship Standards	9,973	10,156	183	1.8
Division of Labor Statistics and Research	3,853	3,884	31	0.8
Claims, Wages, and Contingencies	35,158	33,832	-1,326	-3.8
Administration	26,729	26,993	264	1.0
Distributed Administration	(26,729)	(26,993)	-264	0.0
Total	\$344,052	\$346,814	\$2,762	0.8

Major Budget Proposals

Establish Collections Unit within the Division of Labor Standards Enforcement. The Governor proposes to augment the Department's budget by \$561,000 (special fund) and five positions to establish a collections unit within the Division of Labor Standards Enforcement to actively pursue the wages and penalties it determines are due as a result of judgments against employers who have violated labor laws. The Administration indicates this new unit would generate enough funding to be self-sufficient.

Workers' Compensation Reform. The Governor proposes four budget changes that relate to recently-enacted workers' compensation legislation.

- **Return-to-Work Program Staffing and Funding.** The Governor requests \$577,000 and one position to fund payments to small employers who comply with the requirements of the Return-to-Work Program. The program was placed in statute by AB 749 (Chapter 6, Statutes of 2002) and modified by SB 899 (Chapter 34, Statutes of 2004).
- **Extension of Limited-term Legal Positions.** The Governor requests a two-year extension of \$297,000 and four legal positions to support ongoing regulatory activities related to workers' compensation reform. The Administration indicates this workload is associated with SB 899 (Chapter 34, Statutes of 2004).
- **Repeal of \$100 Initial Lien Filing Fee.** The Governor requests the repeal of Labor Code Section 4903.05 (added by SB 228, Chapter 639, Statutes of 2003) that requires medical-legal providers to pay a \$100 filing fee when filing an initial lien on a claim in order to assert their claim for payment for services provided. The Administration indicates this requirement "has created a workload that does not positively impact the settling of claims and instead has created a process that is inefficient for the division and the district offices."
- **Position Upgrade.** The Governor request \$971,000 to fund upgrades for positions in the Workers' Compensation Unit. The Department indicates the complexity of the workload has increased with recent legislation and this merits the upgrade. Proposed provisional language would tie expenditure of these funds to approval of the upgrade by the Department of Personnel Administration and/or the State Personnel Board.

District Offices. The Governor proposes two budget changes that relate to district offices.

- **Increased Facilities Costs.** The Governor requests an augmentation of two positions and \$2.2 million for unfunded facilities cost increases due to increased baseline staffing. The Department indicates it maintains 24 district offices throughout the state and 8 satellite offices.
- **Security.** The Governor requests \$280,000 to install security barriers at the Van Nuys and Los Angeles district offices and to provide California Highway Patrol security coverage at these two offices.

Pressure Vessel Safety Program. The Governor requests an augmentation of \$1 million and eight positions to address on-going workload in the Pressure Vessels Unit. These positions would address workload associated with Labor Code Section 7680 that requires that tanks and boilers have permits to operate. Revenue generated from inspection fees would fund these positions.